Annual Financial Statements

Australian Ethical Superannuation Pty Limited

ABN 43 079 259 733

30 JUNE 2021

Contents

Directors' Report

The directors present their report, together with the financial statements, on Australian Ethical Superannuation Pty Limited (the "Company") for the year ended 30 June 2021.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Steve Gibbs
Kate Greenhill
Mara Bûn
Michael Monaghan

Principal Activities

During the financial year, the principal continuing activities of the Company was being trustee of the Australian Ethical Retail Superannuation Fund. Included in these activities are funds management, portfolio management, investment administration and custody services. Other than as described in this report, there were no significant changes in the nature of the Company's activities during the year.

Dividends

Dividends paid during the financial year were as follows:

	2021 **$**	**2020** **$**
Final dividend for the year ended 30 June 2020 of $1.20 (2019: $11.50) per fully paid ordinary share – fully franked	286,868	2,749,156
Interim dividend for the year ended 30 June 2021 of $6.00 (2020: $5.30) per fully paid ordinary share – fully franked	1,434,342	1,267,002
	1,721,210	4,016,158

Since the end of the financial year, the Directors declared a dividend of $3.20 per share (2020: $1.20 per share). The dividends have not been provided for. The aggregate amount of the declared dividend expected to be paid on 16 September 2021 out of profits for the year ended 30 June 2021, but not recognised as a liability at year end is $764,982 (2020: $286,868).

Review of operations

The profit for the Company after providing for income tax amounted to $2,379,289 (30 June 2020: $1,643,711).

For the Australian Ethical Retail Superannuation Fund (the Fund), funds under management increased by $1,179m during the financial year, from $2,722m at 30 June 2020 to $3,901m at 30 June 2021. This growth in FUM is supported by the strong investment returns delivered for our customers by our award-winning investments team, who added several local and global accolades to their already impressive credentials.

The Superannuation fund increased membership from 51,301 in June 2020 to 61,999 as at 30 June 2021. This has been the result of increased marketing efforts by the Investment Manager, in particular, brand campaigns increasing awareness of Australian Ethical products including the Fund.

COVID-19

The operational challenges that Australian Ethical has faced are negligible compared to the heavy human, social and economic toll that is being wrought worldwide by the pandemic. As an organisation we extend our sympathies to all those who have been affected, and our gratitude to those on the frontline.

With half the country in lockdown at time of writing shows that COVID remains a concern. However, our business has proven to be exceptionally resilient by delivering outperformance for investors, members and shareholders despite the ongoing volatility and uncertainty.

We are continuing to monitor the COVID situation and our employees' wellbeing remains front of mind. This includes their day-to-day health and safety as well as their ongoing mental health. The business has strict COVID-safe practices in place and has implemented creative ways to stay connected. Our unique culture has helped us withstand the considerable upheaval, and our pre-pandemic flexible working policy has meant employees have been able to choose a working arrangement that suits their individual circumstances.

As a result of these measures, and a robust crisis management plan, we have continued to operate effectively with minimal disruption to business-as-usual operations. Business productivity has remained high, and we have continued to deliver outcomes for all our stakeholders.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Company during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the company's state of affairs in future financial years. Management have considered the impact of the ongoing COVID-19 pandemic in Australia and assessed there are no changes required to the financial statements subsequent to the end of the financial year.

Likely developments and expected results of operations

Additional information about the Group's business is available on our website.

Environmental regulation

The Company does not hold any direct investment in commercial property. To the best of the directors' knowledge, the relevant environmental regulations under Commonwealth and State legislation have been complied with.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 22 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of KPMG

There are no officers of the Company who are former partners of KPMG.

Auditor’s independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

STEVE GIBBS

Director

25 August 2021
Sydney

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Ethical Superannuation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Superannuation Limited for the financial year ended 30 June 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
25 August 2021

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Statement of comprehensive income

For the year ended 30 June 2021

	Note	2021 $	2020 $
Revenue	4	39,063,649	32,686,251
Total revenue		39,063,649	32,686,251
Expenses			
Investment management and administration fees	5	(27,283,198)	(24,166,637)
External services	6	(6,913,875)	(5,523,899)
Strategic projects	7	(533,563)	(252,340)
Employee benefits	8	(436,242)	(297,457)
Other expenses	9	(434,534)	(165,216)
IT expenses	10	(81,243)	(7,000)
Profit before income tax expense		3,380,994	2,273,702
Income tax expense	11	(1,001,705)	(629,991)
Profit after income tax expense for the year attributable to the owners of Australian Ethical Superannuation Pty Limited		2,379,289	1,643,711
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year attributable to the owners of Australian Ethical Superannuation Pty Limited		**2,379,289**	**1,643,711**

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position

As at 30 June 2021

	Note	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents	12	4,136,532	2,443,835
Trade and other receivables	13	599,301	2,129,710
Other	14	168,708	151,036
Total current assets		4,904,541	4,724,581
Non-current assets			
Deferred tax	11	282,984	81,854
Total non-current assets		282,984	81,854
Total assets		**5,187,525**	**4,806,435**
Liabilities			
Current liabilities			
Trade and other payables	15	3,791,877	4,104,210
Employee benefits	16	48,979	17,680
Total current liabilities		3,840,856	4,121,890
Non-current liabilities			
Employee benefits	17	6,504	2,459
Total non-current liabilities		6,504	2,459
Total liabilities		3,847,360	4,124,349
Net assets		1,340,165	682,086
Equity			
Issued capital	18	316,000	316,000
Retained profits		1,024,165	366,086
Total equity		**1,340,165**	**682,086**

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity

For the year ended 30 June 2021

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2019	316,000	2,738,533	3,054,533
Profit after income tax expense for the year	–	1,643,711	1,643,711
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	1,643,711	1,643,711
Transactions with owners in their capacity as owners:			
Dividends paid (note 19)	–	(4,016,158)	(4,016,158)
Balance at 30 June 2020	316,000	366,086	682,086

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2020	316,000	366,086	682,086
Profit after income tax expense for the year	–	2,379,289	2,379,289
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	2,379,289	2,379,289
Transactions with owners in their capacity as owners:			
Dividends paid (note 19)		(1,721,210)	(1,721,210)
Balance at 30 June 2021	316,000	1,024,165	1,340,165

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of cash flows

For the year ended 30 June 2021

	Note	2021 $	2020 $
Cash flows from operating activities			
Receipts from customers		38,591,569	33,130,678
Payments to suppliers and employees		(34,471,096)	(30,035,914)
Interest received		3,401	22,646
Proceeds from claim settlement		525,000	–
Payment to ORFR for claim settlement		(225,885)	–
Income taxes paid		(1,009,082)	(643,596)
Net cash from operating activities	24	3,413,907	2,473,814
Net cash from investing activities		–	–
Cash flows from financing activities			
Dividends paid	19	(1,721,210)	(4,016,158)
Net cash used in financing activities		(1,721,210)	(4,016,158)
Net increase in cash and cash equivalents		1,692,697	(1,542,344)
Cash and cash equivalents at the beginning of the financial year		2,443,835	3,986,179
Cash and cash equivalents at the end of the financial year	12	4,136,532	2,443,835

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

NOTE 1. ABOUT THIS REPORT

The financial statements cover Australian Ethical Superannuation Pty Limited as an individual entity. The financial statements are presented in Australian dollars, which is Australian Ethical Superannuation Pty Limited's functional and presentation currency. The entity is incorporated and domiciled in Australia.

The Company is a for-profit entity for the purposes of preparing financial statements.

The Company's registered office is at Level 8, 130 Pitt Street, Sydney NSW 2000.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2021. The directors have the power to amend and reissue the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the accruals basis and are based on historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Current and non-current classification

Assets and liabilities are presented in the Statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors. Management continue to monitor the impact from the ongoing COVID-19 pandemic and its impact on the financial statements. Despite the volatility in markets and early release of super scheme, the business has continued to experience growth in FUM with positive net inflows and strong investment performance. At this time, management have not adjusted any estimates or valuations as a direct result of the impact from COVID-19.

The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Income tax & deferred tax assets – refer to Note 11

The entity is subject to income taxes in the jurisdictions in which it operates. Estimation is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision – refer to Note 8

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

NOTE 4. REVENUE

	2021 $	**2021 $**
Management fees	25,960,138	20,608,473
Administration fees (net of Operational Risk Financial Reserve contributions)	8,431,390	8,825,177
Member fees (net of rebates)	4,143,696	3,230,066
Proceeds from claim settlement	525,000	–
Interest income	3,425	22,535
Revenue	39,063,649	32,686,251

Recognition and measurement

(i) Fee revenue

Fee revenue is earned from provision of services to members and is recognised when services are provided.

The superannuation administration fee charged to the members of AERSF was reduced from 0.41% to 0.29% on 1 April 2020. The administration fee entitlement in accordance with the Product Disclosure Statement ('PDS') is net of $787k (2020: $504k) paid directly to the Operational Risk Financial Reserve ('ORFR') of the superannuation fund.

NOTE 4. REVENUE (CONTINUED)

(ii) Proceeds from claim settlement

Other income includes the receipt of $525k as settlement of an insurance claim lodged with the parent entity, Australian Ethical Investment Limited in relation to a unit pricing issue dating back to 2017. Of the amount received, $226k was paid to the ORFR of the Superannuation Fund to return the amount originally paid from reserve. The remaining $299k was retained to offset costs incurred in remediating the unit pricing matter.

(iii) Interest income

Interest revenue is recognised as interest accrues using the effective interest method.

NOTE 5. INVESTMENT MANAGEMENT AND ADMINISTRATION FEES

	2021 $	**2020 $**
Investment management fees (paid to parent entity)	20,645,569	16,077,545
Administration fees (paid to parent entity)	6,637,629	8,089,092
	27,283,198	24,166,637

The administration fees paid to the parent entity include a fee for the insourced contact service centre which is based on the number of members.

NOTE 6. EXTERNAL SERVICES

	2021 $	**2020 $**
Administration services	5,916,192	4,595,364
Custody fees	335,989	311,972
Insurance	257,265	158,592
Audit/Accounting services	192,704	178,977
Legal/Consultant fees	156,016	225,904
Other professional services	45,637	44,442
Other fund related	10,072	8,648
	6,913,875	5,523,899

Of the administration fees paid during the period, $639,000 relates to fund costs incurred for regulatory initiatives. In the prior year, these costs were borne by the administrator under a regulatory cost holiday. Also included is the implementation cost of redesigning our insurance offering within the super fund of $400k.

Administration fees also includes the cost of managing the early release of superannuation drawdowns under the Federal Government's support for individuals significantly impacted by COVID-19.

NOTE 7. STRATEGIC PROJECTS

	2021 $	**2020 $**
Strategic projects	533,563	252,340

Strategic projects represents investment in the technology platform supporting the internalisation of the superannuation members' contact centre to strengthen the customer experience. The prior year's costs included member education tools, preparation for member outcomes assessment, and a review of our insurance offering to superannuation members.

NOTE 8. EMPLOYEE BENEFITS

	2021 $	2020 $
Employee remuneration	261,365	153,316
Directors' fees	170,507	142,524
Other employment costs	4,370	1,617
	436,242	297,457

NOTE 9. OTHER EXPENSES

	2021 $	2020 $
ORFR payment – claim settlement	225,885	–
APRA levy	168,461	154,363
Other expenses	40,188	5,772
	434,534	160,135

NOTE 10. IT COSTS

	2021 $	2020 $
IT licence fees	81,243	7,000

IT costs includes licences and registrations for IT systems required to comply with regulatory requirements.

11. INCOME TAX

	2021 $	2020 $
Income tax expense		
Current tax	1,202,835	643,596
Deferred tax – origination and reversal of temporary differences	(201,130)	(13,605)
Aggregate income tax expense	1,001,705	629,991
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	3,380,994	2,273,702
Tax at the statutory tax rate of 30.0% (2020: 27.5%)	1,014,297	625,268
Adjustment to deferred tax balances as a result of change in statutory tax rate	(12,592)	4,723
Income tax expense	1,001,705	629,991

The applicable weighted average effective tax rate for the Company is 29.6% (2020: 27.5%).

NOTE 11. INCOME TAX (CONTINUED)

	2021 $	2020 $
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses	282,984	81,854
Deferred tax asset	282,984	81,854
Movements:		
Opening balance	81,854	68,249
Credited to profit or loss	201,130	13,605
Closing balance	282,984	81,854

Accounting policy for income tax

Tax expense comprises of current and deferred tax expense recognised in the profit and loss except where related to items recognised directly in equity. Tax expense is measured at the tax rates that have been enacted or substantially enacted based on the national tax rate for each applicable jurisdiction at the reporting date.

Current tax is the expected tax payable or receivable on taxable income or loss for the year and any adjustment in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. These are offset if there is a legally enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

The Company, its parent entity, Australian Ethical Investment Limited, and the parent entity's wholly owned subsidiaries (together referred to as the 'Group') have formed an income tax consolidated group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group.

The tax consolidated group has a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax consolidated group.

Under the tax sharing agreement, Australian Ethical Superannuation Pty Limited agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the Australian Taxation Office for group tax liabilities.

NOTE 12. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2021 $	2020 $
Deposits at call	4,031,532	2,338,835
Term deposit	100,000	100,000
Cash at bank	5,000	5,000
	4,136,532	2,443,835

Recognition and measurement

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits at call earn interest at a higher rate than cash at bank which are low interest earning transactional accounts.

NOTE 13. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2021 $	2020 $
Trade receivables	594,026	655,622
Other – receivable from parent entity	5,275	1,474,088
	599,301	2,129,710

Recognition and measurement

Trade receivables are initially recognised when they are originated and are measured at the transaction price. Subsequently, trade receivables are measured at amortised cost.

Specific consideration has been given to the impact of COVID-19 on the ability of customers to pay their debts when assessing the recoverability of trade receivables. Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables and all balances are due from related party entities as at 30 June 2021 (2020 nil). Management have not identified any additional concerns regarding collectability of the receivables.

NOTE 14. CURRENT ASSETS – OTHER

	2021 $	2020 $
Prepayments	168,708	151,036

NOTE 15. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2021 $	2020 $
Payable to parent entity	1,397,761	2,094,721
Accrued expenses	2,394,116	2,009,489
	3,791,877	4,104,210

Refer to note 20 for further information on financial instruments.

Trade payables includes income tax payable to the parent entity.

Recognition and measurement

Trade payables and accruals represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of invoice being rendered.

NOTE 16. CURRENT LIABILITIES – EMPLOYEE BENEFITS

	2021 $	2020 $
Annual leave	12,381	7,463
Employee benefits	36,598	10,217
	48,979	17,680

Recognition and measurement

Employee benefit provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Liabilities for wages and salaries, including employee short term incentive compensation, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

NOTE 17. NON-CURRENT LIABILITIES – EMPLOYEE BENEFITS

	2021 $	2020 $
Long service leave	6,504	2,459

Recognition and measurement

The liabilities for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

NOTE 18. EQUITY – ISSUED CAPITAL

	2021 Shares	2020 Shares	2021 $	2020 $
Ordinary shares – fully paid	239,057	239,057	316,000	316,000

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The Company manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to continue to provide returns to its shareholder and benefits to other stakeholders, and to reduce the cost of capital.

NOTE 18. EQUITY – ISSUED CAPITAL (CONTINUED)

Part of the capital management of the Company is to determine the dividend policy. Any amounts in excess of the minimum required working capital is typically paid as a dividend. In certain circumstances, the Board may declare a dividend outside this policy.

As at year end, the Company had no long term debt arrangements.

There were no changes to the Company's approach to capital management during the year.

NOTE 19. EQUITY – DIVIDENDS

Dividends paid during the financial year were as follows:

	2021 $	2020 $
Final dividend for the year ended 30 June 2020 of $1.20 (2019: $11.50) per fully paid ordinary share – fully franked	286,868	2,749,156
Interim dividend for the year ended 30 June 2021 of $6.00 (2020: $5.30) per fully paid ordinary share – fully franked	1,434,342	1,267,002
	1,721,210	4,016,158

Since the end of the financial year, the Directors declared a dividend of $3.20 per share (2020: $1.20 per share). The dividends have not been provided for. The aggregate amount of the declared dividend expected to be paid on 16 September 2021 out of profits for the year ended 30 June 2021, but not recognised as a liability at year end is $764,982 (2020: $286,868).

NOTE 20. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Company's activities expose it to a variety of financial risks, including market risk arising from Funds under Management, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company does not have a material exposure to currency, price and interest rate risk.

The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Board and the Audit, Risk and Compliance Committee (ARC). The ARC is responsible for risk management oversight and its main functions include identifying emerging risks, determining the relevant treatment and monitoring emerging and current risks. In addition, the ARC is responsible for ensuring that management have the systems and policies in place for the Company to meet and monitor its risk management responsibilities. The Board regularly monitors the overall risk profile of the Company and sets the risk appetite for the Company, usually in conjunction with the annual planning process.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Exposure

The Company's revenue is dependent on Funds Under Management (FUM), which is influenced by equity market movements. Management calculates that a 10% movement in FUM linked to equity markets would change annualised revenue by approximately $2,726,137 (2020: $2,029,460).

Credit risk

The Company has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Company based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is predominantly exposed to credit risk on its deposits with banks and financial institutions. The Company manages this risk by holding cash and cash equivalents at financial institutions with a Standard and Poor's rating of "A" or higher. The maximum exposure of the Company to credit risk on financial assets which have been recognised on the Statement of Financial Position is the carrying amount of cash and cash equivalents. For all financial instruments other than those measured at fair value their carrying value approximates fair value.

All trade and other receivables balances are short term in nature and are not past due or impaired.

Liquidity risk

Liquidity risk management requires the Company to maintain sufficient liquid assets (mainly cash and cash equivalents).

The Company manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the Company's remaining contractual maturity for its financial instrument liabilities. The amounts disclosed in the tables are the contractual undiscounted cash flows as all balances are due within 12 months and the impact of discounting is not significant.

	Weighted average interest rate %	**1 year or less $**	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Remaining contractual maturities $**
2021						
Non-derivatives						
Non-interest bearing						
Trade payables	–	5,072,213	–	–	–	5,072,213
Total non-derivatives		5,072,213	–	–	–	5,072,213

	Weighted average interest rate %	**1 year or less $**	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Remaining contractual maturities $**
2020						
Non-derivatives						
Non-interest bearing						
Trade payables	–	3,791,877	–	–	–	3,791,877
Total non-derivatives		3,791,877	–	–	–	3,791,877

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTE 21. FAIR VALUE MEASUREMENT

Recognition and measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

NOTE 22. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	2021 $	2020 $
Audit services – KPMG		
Audit of the financial statements	11,408	11,296
Audit services for the non-consolidated superannuation fund – KPMG		
Audit and review of the financial statements	35,199	34,850
Audit services in accordance with regulatory requirements	65,330	58,088
	100,529	92,938
	111,937	104,234
Other services – KPMG		
Preparation of the tax return and tax advisory	23,744	35,744
Total remuneration of KPMG	135,681	139,978

The Board considered the non-audit services provided by the auditor and is satisfied that the provision of the non-audit services above by the auditor is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor, and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

NOTE 23. RELATED PARTY TRANSACTIONS

Parent entity

The parent entity is Australian Ethical Investment Limited.

Trustee

The Company acts as trustee of the Australian Ethical Retail Superannuation Fund (AERSF).

NOTE 23. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties

The following transactions occurred with related parties:

	2021 $	2020 $
Payments to Australian Ethical Investment Limited:		
Trustee and administration fees	6,637,628	8,089,092
Investment management fees	20,645,569	16,077,545
Transactions between the Company and its parent entity under tax consolidation and related tax sharing agreement	1,001,705	629,991
Dividends paid to the parent entity	1,721,210	4,016,158
Director fees paid by parent entity on behalf of the Company	–	55,142
Receipts from Australian Ethical Retail Superannuation Fund:		
Provision of investment management/administration services to AERSF	34,391,528	29,433,650
Provision of member administration services to AERSF	4,143,696	3,230,066

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to trade receivables and payables with related parties.

	2021 $	2020 $
Current receivables:		
Amounts receivable from AEI	5,275	1,474,088
Amounts receivable from the AERSF	594,026	655,622
Current payables:		
Amounts payable to the parent entity	(1,397,761)	(2,094,721)

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 24. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	2021 $	2020 $
Profit after income tax expense for the year	2,379,289	1,643,711
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,530,409	(1,007,126)
Increase in other current assets	(17,672)	(43,104)
Increase in deferred tax assets	(201,130)	(13,605)
Decrease/(increase) in trade and other payables	(312,333)	1,873,799
Increase in employee provisions	35,344	20,139
Net cash from operating activities	3,413,907	2,473,814

Directors' declaration

IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

S. P. Gibbs

Steve Gibbs
Director

25 August 2021
Sydney

Independent Auditor's Report

To the members of Australian Ethical Superannuation Pty Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Australian Ethical Superannuation Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2021;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Australian Ethical Superannuation Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
25 August 2021

Australian Ethical